LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 6182
BILL NUMBER: HB 1093

DATE PREPARED: May 3, 1999
BILL AMENDED: Apr 29, 1999

SUBJECT: Public pension funds.

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FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (CCR Amended) This bill makes the following provisions:

1) Provides that the State, through the Budget Agency, may adopt a defined contribution plan for the purpose of matching all or a specified portion of state employees' contributions to the state employees' deferred compensation plan. It provides that the Deferred Compensation Committee is the trustee of the plan. The bill provides that the plan shall be administered by the Auditor of State.

2) Specifies that the pension of the surviving spouse of a Governor who dies after June 30, 1998, is equal to the greater of: (1) 50% of the annual retirement benefit that the governor to whom the surviving spouse was married was receiving or was entitled to receive on the date of the governor's death; or (2) $10,000. It specifies that the pension of the surviving spouse of a governor who died before July 1, 1999, is equal to the greater of: (1) the annual retirement benefit received by the surviving spouse during the year beginning July 1, 1998; or (2) $10,000.

3) Provides that the valuation of PERF and TRF members' annuity savings accounts that are invested in an alternative investment program must be done at least quarterly. (Current law requires the valuation to be done annually.)

4) Provides that when a member participating in an alternative investment program transfers the amount credited to the member from one alternative investment program to another alternative investment program or to the guaranteed program, the amount credited to the member is valued at the market value of the member's investment, as of the day before the effective date of the member's selection. (Current law provides that it is valued as of the last day of the preceding quarter.)

5) Provides that when a member participating in the guaranteed program transfers the amount credited to the member to an alternative investment program, the amount credited to the member in the guaranteed program is computed without regard to market value and is based on the balance of the member's account in the

guaranteed program as of the last day of the quarter preceding the effective date of the transfer.

6) Provides that annuity savings account contributions to the alternative investment programs: (1) shall be invested as of the last day of the quarter in which the contributions are received; and (2) begin to accumulate interest at the beginning of the quarter after the quarter in which the contributions are received. The bill provides that contributions to the alternative investment programs shall be invested as of the last day of the quarter in which the contributions are received.

7) Specifies information that a PERF or TRF member must provide when filing an application for retirement benefits. The bill provides that the PERF Board and the TRF Board may suspend a person's fund membership and pay the person the annuity savings account if the member has not performed any service in a covered position during the past two years, is not vested, and has a total benefit value of less than $200.

8) Provides that the PERF or TRF boards may purchase securities issued by a custodian bank or trust company or a subsidiary, parent, or holding company of the custodian.

9) Provides that PERF and TRF members are entitled to service credit for adoption leave of not more than one year.

10) Allows PERF and TRF to pay an estimated retirement benefit to a member under certain circumstances. The bill provides that after a member's actual retirement benefit is calculated, the fund shall temporarily adjust the member's benefit to reconcile any underpayment or overpayment that resulted from the payment of estimated benefits.

11) Allows a member of PERF or TRF to designate a new beneficiary under certain circumstances.

12) Allows a member of PERF or TRF to elect to begin receiving the member's pension benefit but to leave the member's annuity savings account invested until a later date.

13) Continues to use an earnings limit prepared under federal Social Security laws to determine how much a PERF or TRF member who is receiving benefits may earn in a fund-covered position before the member's benefits are suspended and the member is reinstated into active membership, but specifies the period within which the limit is applied. It provides for an automatic suspension of benefits if a member is reemployed within 90 days of retirement.

14) Requires an employer to submit a PERF member's membership records to the PERF board not more than 30 days after the member is hired. The bill provides that if an employer does not provide the PERF board with employees' membership records or other reports or payments within 30 days after the records, reports, or payments are due, the PERF board may fine the employer $100 for each day the records, reports, or payments are late. It allows the Auditor of State to withhold this penalty from money payable by the state to the employer.

15) Allows certain individuals to claim service credit in PERF if the individuals: (1) were erroneously enrolled in PERF before 1980; (2) made contributions to PERF; and (3) were subsequently denied all or part of the service credit for a position that would otherwise be covered by PERF.

16) Allows PERF members to purchase service credit at actuarial cost for their prior service in positions covered by the 1925 Fund, the 1937 Fund, or the 1953 Fund if they did not vest in any of those funds.

17) Provides that TRF members may purchase service credit for private school teaching after one year of credited service in TRF. (Current law provides that the private school service credit may be purchased only after the TRF member has ten years of credited service in TRF.) The bill provides that a TRF member who purchases service credit for private school teaching may not claim the service credit until the member has at least ten years of credited service in TRF. (These changes would make the provisions concerning purchase of private school service credit consistent with provisions concerning the purchase of other forms of service credit.) It provides that private school teaching credit may be claimed for teaching kindergarten through postsecondary school.

18) Provides that if a member of the 1977 Fund requests a hearing concerning a determination of impairment, the local police or firefighter pension board must hold the hearing within 90 days after the member's request and must make a determination within 30 days after the hearing.

19) Allows members of the Judges' Retirement System to purchase service credit at full actuarial cost for prior service in an Indiana public employees' retirement fund. However, the judge must have at least eight years of service credit in the Judges' Retirement System before the purchase of service may be made

20) Provides that a police officer or marshal employed by a town that establishes a board of metropolitan police commissioners or a town that becomes a city may participate in the 1977 Fund regardless of the person's age if the person meets certain physical standards. The bill provides that any prior service credit for such a person may be granted only in accordance with existing law concerning the granting of prior service credit.

21) Provides that for purposes of the 1977 Fund provisions concerning line of duty benefits paid to a survivor, the term "line of duty" also includes any action that a fund member, in the member's capacity as a police officer or firefighter, performs: (1) in the course of controlling or reducing crime or enforcing the criminal law; or (2) while on the scene of an emergency run or on the way to or from the scene. (The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

22) Provides that for the purposes of the Legislators' Retirement System law, "salary" includes amounts deferred under a deferred compensation plan. It also provides that on any July 1 following the date a person begins participation in the deferred compensation fund of the Legislators' Retirement System, any amounts in the person's PERF or TRF annuity savings account may be transferred to the defined contribution fund. It requires the PERF Board of Trustees establish alternative investment programs within the Legislators' Defined Contribution Plan. It specifies that a participant may make a selection or change an existing selection any time, but not more than one time in a 12 month period.

23) Provides that an employee who (a) has at least ten years of creditable service with a state agency; (b) retires after June 30, 2000; and (c) has accrued an unused sick days, vacation days, or personal days on the employee's retirement date; is entitled to have certain amounts deposited by the State into a cafeteria plan under Section 125 of the Internal Revenue Code. It requires the State Department of Personnel to adopt rules that it considers necessary to make periodic payments to a cafeteria on behalf of eligible retired employees. It provides that an employee with at least 10 years of creditable service but less than 15 years is entitled to an amount based on 20% of the employee's accrued days; an employee with at least 15 years of creditable service but less than 20 years is entitled to an amount based on 35% of the employee's accrued days; an employee with at least 20 years of creditable service is entitled to an amount based on not more than 50% of the employee's accrued days.

Effective Date: (Amended) June 1, 1998 (retroactive); July 1, 1999; July 1, 2000.

Explanation of State Expenditures: (Revised) Part 1 is permissive and will depend upon the implementation by the State of the new plan. The Indiana Deferred Compensation Plan reports that currently there are 11,499 participants, or approximately 32% of State employees, in the Plan, with an average bi-weekly deferral of $96. The implementation of this proposal could cost the State approximately $28.7 million per year if there was a 100% match to the current rate of deferral. The funds affected are the State General Fund 55%, or approximately $15.8 million and various dedicated funds 45%, or $12.9 million. This split represents the percentage that these funds contribute for personal services in the State Budget. It should be noted that the provisions of this proposal may encourage greater participation the Plan. This could increase the cost to the State, depending upon the number of participants and the bi-weekly deferral amount, and the amount the State elects to match. Contributions to the Plan on the part of the State are limited to the amount of biennial appropriations made for this purpose.

The Auditor of State is required to administer the newly created plan. The Auditor of State reports that since they already participate in the Deferred Compensation Plan, there would be no additional cost involved.

Part 2 will have no impact on the State General Fund, the fund from which the Governor's pension is paid. The bill makes legal the payment to the three current surviving spouses of deceased governors. It also specifies that for the surviving spouse of a governor who dies after June 30, 1998, the pension is equal to the greater of: (1) 50% of the annual retirement benefit that the Governor to whom the surviving spouse was married was receiving or was entitled to receive on the date of the Governor's death; or (2) $10,000.

Part 3 may result in additional administrative expenditures, but they are expected to be minimal. The fund affected is the PERF Employer Earnings Fund.

Parts 4, 5, 6, and 7 will have no fiscal impact on the Funds.

Part 8 expands the available pool from which the Funds may purchase securities. Any impact will depend upon the purchase price of the securities and any related administrative costs.

Part 9 allows for adoption leave of up to one year. Any impact will depend upon the number of people who avail themselves of this benefit and their respective salaries. It is anticipated that any fiscal impact would be minimal at best. The funds affected are the State General Fund and various dedicated funds.

Part 10 allows PERF and TRF to pay an estimated retirement benefit to a member under certain circumstances. The bill provides that after a member's actual retirement benefit is calculated, the fund shall temporarily adjust the member's benefit to reconcile any underpayment or overpayment that resulted from the payment of estimated benefits. Any impact will depend upon the adjustments made.

Part 11 will have no fiscal impact on the Funds.

Part 12 will have no fiscal impact on the Funds.

Part 13 will have a minimal impact on the Funds. For example, a participant who earns more than the earnings limit would have his/her benefits suspended, thereby creating an experience gain to the Funds (since the rate of rehires is assumed to be zero in the preparation of an actuarial valuation). Furthermore, although a participant may receive a higher benefit after retiring a second time, it would be for a shorter period of time since the participant would have a shorter remaining life span.

Part 15 likely will have a fiscal impact on PERF. However, it will depend upon the number of such individuals and the amount of service claimed. The fund affected is the PERF Employer Reserve Account.

Part 16 will have no fiscal impact since the purchase is at full actuarial cost.

Part 17 will have no fiscal impact since the purchase is at full actuarial cost.

Part 19 will have no fiscal impact since the purchase is at full actuarial cost. However, the judge must have at least eight years of service credit in the Judges' Retirement System before the purchase of service may be made.

Part 22 PERF reports that there will be administrative costs associated with establishing of the alternative investment program within the Legislators' Retirement System, but that these costs are expected to be minimal, less than $5,000. The fund affected is the PERF Employer Earnings Fund.

Part 23 This part provides that state employees who retire early with between 10 and 15 years of creditable service are to paid for 20% of the employee's accrued, but unused, sick, vacation, and personal days. The payment rate for employees with between 15 and 20 years of creditable service is 35% and the payment rate for employees with more than 20 years of creditable service is 50% of accrued, but unused, sick, vacation, and personal days. The estimated cost of this provision is approximately $1,275,000 per year.

The distribution by category for the state employees covered by the bill who are estimated to have retired early in FY98 and the cost of the payout for each of the employee categories are presented in the following table. This annual estimate assumes that the FY 98 retirement experience will apply in future years.

Years of Service	**No. Retired**	**Payment Rate**	**Cost**
Between 10 and 15	47	20%	$99,955
Between 15 and 20	56	35%	$218,111
More than 20	178	50%	$954,814
Total	282		$1,272,880

These estimates are based on an average value of accrued, but unused, sick days of $6,868, vacation days (greater than 30 days) of $3,574, and personal days of $196 for those state employees whose current age and years of creditable service is greater than 75.

After rules are adopted, the value of the employee's sick, vacation, and personal days are converted to pay insurance premiums for the employee or the employee's spouse. A retired employee on the state health plan is required to pay both the employee and the employer share of the premium. Based on the current cost of health insurance, the average amount of time required to use up all of the dollars for premium payments will be 3 to 5 years for a single policy and 1 to 2 years for a family policy.

Currently, personnel costs are paid from the State General Fund (about 55%) and from dedicated funds (about 45%).

Explanation of State Revenues: Part 14 may generate some revenue for PERF, but the amount is indeterminable.

Explanation of Local Expenditures: (Revised) Part 17 will have no fiscal impact on TRF since the purchase is at full actuarial cost. Part 18 may generate some administrative costs for the 1977 Police Officers and Firefighters Pension Fund, but any costs are likely to be minimal, less than $2,000.

Part 20 will have no fiscal impact on the 1977 Fund.

Part 21 may increase the costs for the 1977 Police Officers and Firefighters Pension Fund, but the specific impact is indeterminable and will depend upon the number of Fund members who die under the expanded definition of “line of duty” death and whose survivors would otherwise would not be entitled to the benefit.

Explanation of Local Revenues:

State Agencies Affected: PERF; TRF; Judges’ Retirement System; Auditor of State; State Department of Personnel.

Local Agencies Affected: School corporations; cities and towns with members in the 1977 Police Officers and Firefighters Pension Fund.

Information Sources: Doug Todd of McCready & Keene, Inc., actuaries for PERF and the 1977 Police Officers and Firefighters Pension Fund, 576-1508; Denise Jones of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498; Gene Thompson of the Indiana Deferred Compensation Plan, 638-1195; Mark Webb, Chief Legal Counsel of PERF, 233-4137.